

What you need to know about prepaying funeral expenses

Preparing for death is not a pleasant activity. Neither is having to make funeral preparations for a loved one. The idea of pre-paying for a funeral (also called “pre-need”) has its roots in the rural South in the 1930s and 1940s when salesmen went door-to-door selling burial insurance policies. In the late 1950s and 1960s, millions of small-value burial insurance policies, often called industrial life, were sold. The premiums paid for these policies often were greater than the benefits.



Prepaid plans took off in the 1980s as larger chains began buying family-owned funeral homes. These chain-owned facilities actively marketed such plans, leaving existing, smaller funeral homes with no choice but to do the same.

The increase in cremations also put pressure on funeral homes to increase profits elsewhere since a typical cremation may be done without many of the traditional funeral costs. Some funeral homes are now offering additional services - estate planning, grief counseling and legal services - to increase income.

Older consumers hoping to decrease their assets to qualify for Medicaid find the idea of prepaying funeral expenses to be attractive. According to an AARP report, 34% of individuals age 50+ have done some type of preplanning for a funeral or burial, and 23% have prepaid a portion of funeral or burial expenses.

What is the “Funeral Rule” and what does it mean to me?

Along with Kentucky’s regulation 806 KAR 12:131, the federal “Funeral Rule,” which is enforced by the Federal Trade Commission (FTC), offers certain protections to the consumer. For example, the Funeral Rule requires funeral directors to show you an itemized price list in person. If you are calling, they must disclose the prices to you if you ask. According to the Funeral Rule:

- You have the right to choose the goods and services you want. Any exceptions should be disclosed.
- The funeral provider must state this right in writing on the price list.
- If state or local law requires you to buy a particular item, the funeral provider must note this on the price list with a reference to the applicable law.
- The funeral provider cannot refuse, or charge a fee, to handle a casket you bought somewhere else.
- If cremations are made available, alternative containers, other than a casket, must be offered.

For more information on the Funeral Rule, visit the FTC’s Web site at <http://www.ftc.gov> or call 877-FTC-HELP. *Funerals: A Consumer Guide* is online at <http://ftc.gov/bcp/edu/pubs/consumer/products/pro19.shtm>.

How it works

First, keep in mind the difference in preplanning and prepaying. Preplanning your funeral may involve only listing your preferences, not paying for them. Prepay or preneed involves actually paying for the services you select. Most often, the payment is made to the funeral home. You may be asked to make a lump sum payment, pay in installments or back the purchase with a life insurance policy.

What are some questions I should ask?

- What services does the contract cover? Are there any hidden charges? Am I buying only merchandise, like a casket and a vault, or am I also buying funeral services?
- What happens if I remarry, relocate or want other arrangements? What if I die while I'm away from home?
- Where is my money kept? Who monitors it? Who gets the interest?
- Can I get my money back if I need it?
- Is the price of my funeral guaranteed? Will the amount I pay now cover the complete funeral many years from now?
- What happens if my funeral home goes out of business or changes owners?
- What happens if I cancel the contract?
- Do I have to make a lump sum payment or do you offer a payment plan?
- Can I buy a casket from the supplier of my choice?
- What agency do I call if there is a dispute?

Rather than prepay, some consumer advocates advise setting up a savings account or a certificate of deposit with a bank. Interest earned should keep pace with inflation. This money can be used to pay for your funeral.

What are some tips for consumers?

- Read the contract carefully and ask questions.
- Tell your family about any arrangements you make. Don't include funeral plans in your will since your family may not have access to that document at the time of your death. Don't put the only copy of your funeral wishes in your safe deposit box since your family may be making arrangements on a weekend or holiday when they wouldn't have access. Time and money may be wasted if no one knows about your plans.
- The federal Funeral Rule requires a copy of the price list be made available to you. Be sure to check prices.
- Don't accept any documents that were not completely filled out and signed in your presence.
- Make sure everyone involved in the process is properly licensed.
- Find out about the funeral home. Be sure it is reputable, financially stable and open to giving you any information you need to make informed decisions. Comparison shop and visit several homes before making a final decision.
- Avoid emotional overspending. Use the same smart shopping techniques that you would use for any major purchase and look for ways to save money.
- Be sure you ask if the price is guaranteed, meaning the money you pay today will be enough to cover the costs at a later date. If not, your family will have to come up with the extra money at the time of your death.



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